

**REVIEW OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON
BEHALF OF RENAL CARE GROUP OF THE NORTHWEST PROPOSING TO ADD
SIX STATIONS TO THE EXISTING SEVEN-STATION KIDNEY DIALYSIS FACILITY
KNOWN AS THE CHEHALIS DIALYSIS FACILITY**

PROJECT DESCRIPTION

Fresenius Medical Care Holdings, Inc. (FMCH) is a New York corporation and a subsidiary of Fresenius Medical Care AG (FMCAG), a German corporation. FMCH operates approximately 1,645 dialysis clinics worldwide, of which 1,510 are located in North America.

FMCH conducts its operations through five subsidiaries:

- National Medical Care, Inc.
- Fresenius USA Marketing, Inc.
- Fresenius USA Manufacturing Inc.
- SRC Holding Company
- Fresenius USA Inc.

One of the above entities, National Medical Care, Inc. also conducts its operations through two subsidiaries: QCI Holdings, Inc. and QualiCenters, Inc. QualiCenters, Inc. and National Medical Care, Inc. (owning a 10% or greater ownership) are the corporate parents of QualiCenters Inland Northwest LLC. QualiCenters Inland Northwest, LLC provides dialysis services in one Washington State facility¹.

On May 4, 2005, FMCH and Renal Care Group announced a definitive agreement for the purchase of Renal Care Group for approximately \$3.5 billion. The purchase was approved by Renal Care Group shareholders on August 24, 2005. The transaction closed on March 31, 2006. With the closure of the transaction, Renal Care Group became a wholly-owned subsidiary of FMCH, under the control of Fresenius Medical Care North America (FMCNA). Renal Care Group Northwest, Inc. (RCGNW), a subsidiary of RCG, currently owns, operates and/or manages eleven kidney dialysis treatment facilities in Washington State--two in Clark County;² three in Spokane County³; and one facility in each of the counties of Thurston, Lewis, Mason, Grays Harbor, Grant and Okanogan.⁴ [source: CN files] This application proposes to add six dialysis stations to the existing seven-station facility known as the Chehalis Dialysis Facility.

The estimated capital expenditure for the expansion of the Chehalis facility is \$150,000. The applicant anticipates completion of the new facility immediately upon the issuance of a Certificate of Need.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the increase in the number of dialysis stations at an existing kidney disease treatment facility under the provisions of Revised Code of

¹QualiCenters Walla Walla

²PNRS Salmon Creek and PNRS Ft. Vancouver

³IN-RCG Northpointe, IN-RCG Spokane Kidney Center and IN-RCG Spokane Valley

⁴RCGNW Lacey, RCGNW Chehalis, RCGNW Shelton, RCGNW Aberdeen, RCGNW Moses Lake, and IN-RCG Omak, respectively.

Washington (RCW) 70.38.105(4)(h) and Washington Administrative Code (WAC) 246-310-020(1)(e).

CRITERIA EVALUATION

To obtain Certificate of Need approval, each applicant must demonstrate compliance with the criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); 246-310-240 (cost containment); and 246-310-280 (the dialysis station projection methodology and standards).⁵

APPLICATION CHRONOLOGY

May 12, 2006	Letter of Intent Submitted
June 12, 2006	Application Submitted
June 12, 2006 through July 3, 2006	Screening Activities and Responses
July 7, 2006	Department Begins Review of Applications
August 11, 2006	End of Public Comment
September 28, 2006	Department's Anticipated Decision Date
October 26, 2006	Department's Decision Date

AFFECTED PARTIES

There were no affected parties other than the applicant.

SOURCE INFORMATION REVIEWED

- Chehalis Dialysis Facility's Certificate of Need Application dated June 12, 2006.
- Chehalis Dialysis Facility's supplemental information
- Licensing and/or survey data provided by the Department of Health's Office of Health Care Survey
- Licensing and/or survey data provided by out of state health care survey programs.
- Utilization data provided by the Northwest Renal Network
- Data obtained from Center for Medicare and Medicaid (CMS) "Dialysis Facility Compare" website (<http://www.medicare.gov/Dialysis/home.asp>).
- Data obtained from the Internet regarding health care providers.
- Population data obtained from the Office of Financial Management.
- Certificate of Need historical files

CONCLUSION

For the reasons stated in this evaluation, Fresenius Medical Care's proposal for the addition of six in-center dialysis stations to the existing Chehalis Dialysis Facility is not consistent with the application criteria of the Certificate of Need Program. However, the application is consistent with the applicable review criteria for a reduced number of five additional in-center dialysis stations, therefore a Certificate of Need should be issued for that number.

The capital cost approved for this project is \$150,000.

⁵ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), (5), and (6); and WAC 246-310-240(2) and (3).

A. Need (WAC 246-310-210)

Based on the source information reviewed the department determines that the applicant has met the need criteria in WAC 246-310-210(1) and (2) and WAC 246-310-280.

(1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.

The applicant is proposing to add an additional six dialysis stations to an existing seven-station facility. The Chehalis Dialysis Facility is the only provider of dialysis services in Lewis County. The two nearest dialysis facilities are the Lacey Dialysis Facility, also operated by RCGNW, and a dialysis facility operated by PeaceHealth St. John Medical Center in Longview. At the time RCGNW submitted this application, the Chehalis facility was operating at approximately 84% of capacity.

In its application, RCGNW provided need projections for the proposed service area using the “best fit” method of combining linear and non-linear regression practiced by the department since January 2004.

Based on its review of dialysis utilization by the residents of their proposed service area for the years 2001-2005, the applicant provided the following projected need for dialysis stations in Clark County using linear regression:

Table I
Determination of Station Need in Service Area Through 2009
RCGNW Best Fit Projections

Year	Resident Stations Needed	Visitor Stations Needed	Training Stations Needed	Approved Stations	Net Need
2006	10.9	0	0	7	4
2007	12.5	0	0	7	5
2008	14.4	0	0	7	7
2009	16.6	-1	0	7	9

The Department of Health’s Certificate of Need Program uses the methodology found in WAC 246-310-280 for projecting numeric need for dialysis stations within a county. The department’s need projections, based on data obtained from the Northwest Renal Network for years 2001-2005 is contained in Table II, on the following page: [source: Department's methodology based on Northwest Renal Network facility utilization data]

Table II
Department's Dialysis Station Projections
For Lewis County
Based on 2001-2005 Historical Data

Year	In-center	Visitor	Training	Existing Capacity	Net Need
2006	10.86	-1.97	0	(subtract) 7	1.89
2007	12.51	-2.66	0		2.85
2008	14.40	-3.6	0		3.8
2009	16.58	-4.82	0		4.76

As shown in Table II above, the department projects a net need in the Lewis County area for approximately three additional dialysis stations in year 2007, which increases to approximately five stations by the end of year 2009. This need projection was derived by evaluating each of the four variables in the department's methodology (in-center dialyses, in-center dialysis patients, home hemodialysis training patients and peritoneal dialysis training patients) using both linear and non-linear regression and applying whichever method is deemed most accurate at portraying the behavior of each particular variable.

The applicant's projections and the department's projections differ significantly in the number of stations projected as being needed in 2009. The department has examined the data used by RCGNW in preparation of its application and has noted that RCGNW used internal estimates for the number of dialysis treatments performed at the facility in 2005, rather than the audited data from the Northwest Renal Network used by the department. This different data accounts for only part of the difference between the two projections. The Chehalis facility began operating in 2001. As a result, only four years of historical data is available upon which to base projections of future dialyses. The department has been able to duplicate RCGNW's projections only when preparing projections based on the Chehalis facility's historical data only when inserting a value of zero for 2000 and using that as the first value in the data series. The department concludes that insertion of a zero value in a year where a facility did not actually exist in a planning area is improper, and inconsistent with the department's historical practice. The department concludes, therefore, that any award of additional stations to the Chehalis Dialysis Facility should be limited to five.

WAC 246-310-280(4) requires that existing dialysis centers that would stand to lose market share by approval of a project must be operating at or above 80% utilization (748.8 dialyses per year) before more stations can be added. During the course of the review, no other providers offered information that would indicate that the proposed expansion of the Chehalis Dialysis Facility would cause them to lose market share. The nearest facility to the applicant is the Lacey Dialysis Facility, also owned and operated by RCGNW. 2005 year-end reports for that facility indicate that it was operating in excess of 84% utilization. The department concludes this standard is met.

WAC 246-310-280(5) requires that new in-center kidney disease treatment stations must reasonably project to be operating at 80% capacity (748.8 dialyses per non-training station) by the end of year three. Based on the applicant's projections, with all 13 in-center stations operational, the dialysis center would be operating at 80.7% capacity by the end of year 2009,

which is the third year of operation. The department concludes that RCGNW's proposal for a 13-station would meet this criterion.

Based on the methodology for the service area, the number of dialysis stations in operation in the service area, the existing utilization of the dialysis centers in the service area, and the applicant's projections, the applicant has demonstrated a need for additional in-center dialysis stations in Lewis County, meeting this sub-criterion. As noted above, however, the number of additional stations to be approved is limited to five.

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

The applicant asserts, "All applicants identified as being in need of dialysis services will have access to this facility. RCGNW's admission policies prohibit discrimination on the basis of race, income, ethnicity, sex or handicap." [source: application, p23] The policy provided as Exhibit 10 to the applicant's screening responses prohibits discrimination "...on the basis of race, color, religion, sex national origin, age, disability, or any other characteristic protected by law."

The applicant also provided a copy of RCGNW's charity care policy in Exhibit 10 of the screening responses. That charity care policy clearly states the income levels at which charity care is provided, as well as the other objective criteria used by RCGNW to determine eligibility.

The pro-forma income statements provided as attachment 12 of the screening questions project charity care at 1.5% of total revenue. The department reviewed the historical financial statements provided for the facility as exhibit 12 to its application for evidence of provision of charitable care. Those statements, for 2002 through 2005, reported between \$ -150,181 and \$60,578 per year in "Other cont adj & charity," interpreted by the department as an aggregate of contractual adjustments and charity. From this aggregate figure, the department is unable to determine how much, if any, of the amounts discussed above were charity care. RCGNW has, however projected a reasonable amount of charity care for the proposed facility and has provided a clear charity care policy. Based on this information, the department concludes that all residents of the service area could reasonably be expected to continue to have adequate access to the health services at the Chehalis Dialysis Facility. This sub-criterion is met.

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220.

(1) The immediate and long-range capital and operating costs of the project can be met.

As stated in the project description portion of this evaluation, if approved, the applicant anticipates completion of the proposed facility in "immediately following certificate of need approval." [source: application, p13] With approval issued in October 2006, the first full year of operation should be 2007. Using the financial information provided by RCGNW, Table III, on the following page, illustrates the projected revenue, expenses, and net income for the first three years of operation for Chehalis as a 13-station facility [source: June 29, 2006 screening responses, Attachment 3]:

Table III
Chehalis Dialysis Facility
Projected Revenue and Expenses 2007 – 2009

	Year One (2007)	Year Two (2008)	Year Three (2009)
Treatments	7,427	8,541	9,822
Net Patient Revenue**	\$ 1,837,069	\$ 2,112,617	\$ 2,429,472
Total Operating Expense***	1,632,014	1,845,456	2,090,896
Net Profit or (Loss)	205,055	267,161	338,576
Operating Revenue per Treatment	247.35	247.35	247.35
Total Operating Exp. per Treatment	219.74	216.07	212.88
Net Profit per Treatment	\$ 27.61	\$ 31.28	\$ 34.47

**Includes deductions for charity care

**Includes depreciation and provision for doubtful accounts

As shown in Table VII, above, at the projected volumes identified in the application, RCGNW would be operating the 13-station dialysis facility at a profit for the first three full years of operation. Based on the information presented above, the department concluded that the project is financially feasible and the method of financing for the project is reasonable. The project is also expected to be financially feasible as a 12-station project, rather than the 13 stations requested in this application.

RCGNW is leasing the site for the facility from Providence Centralia Hospital. A copy of the executed lease agreement was provided as Attachment 8 of the application. Costs associated with the lease were included and appear to be consistent with the Building Rental line item in the financial projections used to prepare Table III, above. This sub-criterion is met.

(2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

The costs and charges per dialysis for this project were compared to those of recent kidney dialysis proposals. On the basis of that comparison, the average cost per dialysis is reasonable.

The capital expenditure associated with establishing the proposed facility is estimated to be \$150,000. [source: applicant's screening responses, attachment D] The total capital expenditure of \$150,000 is broken down as follows:

Item	Cost
Moveable Equipment (incl taxes)	133,591
CN Fees	<u>16,409</u>
Total	\$ 150,000

Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. This sub-criterion is met.

(3) The project can be appropriately financed.

As previously stated, the source of financing for this facility is RCGNW cash reserves. A review of RCG's historical financial statements of years 2003 through 2005, demonstrates the funds necessary to finance the project are available. [source: application, appendix1]

To further assure the department of appropriate financing, RCGNW provided a letter from RCG's controller for the Northwest Region, stating "...the funds necessary for the Chehalis Dialysis Facility expansion will come from Renal Care Group of the Northwest, Inc.'s cash reserves, not from any new or existing debt sources. Renal Care Group of the Northwest, Inc. is a wholly-owned subsidiary of Fresenius Medical Care, NA effective April 1, 2006, however remains the owner of the Chehalis Dialysis Center. The reserves are more than adequate to fund the project as needed. As the Department of Health has previously determined in other RCGNW projects, RCG has adequate reserves to fund the project." [source: application, exhibit 11]

Based on the information provided, the department concludes that the applicant has demonstrated that expansion of the Chehalis Dialysis Facility will not adversely affect their financial stability. This sub-criterion is met and the department concludes that the project described in this application can be appropriately financed.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed, and subject to the term on page 4 of this evaluation, the department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

To implement this project RCGNW proposes to hire the equivalent of 6.15 new employees to the dialysis center through the first three full years of operation based on the projected number of patients in those years. The proposed increases for the first three years of operation are shown in Table IV, below:

Table IV
Chehalis Dialysis Facility
FTE Increases

Type of Personnel	2006 Actual	Year 1 Incremental	Year 2 Incremental	Year 3 Incremental	Year 3 Total FTE's
Nurse Manager	1.00	0.00	0.00	0.00	1.00
Outpatient RN	1.80	0.60	0.00	0.00	2.40
PCT	3.00	0.60	1.80	1.80	7.20
Reuse Tech	0.00	0.00	0.00	0.00	0.00
Social Worker	0.20	0.00	0.10	0.20	0.50
Dietitian	0.20	0.00	0.10	0.20	0.50
Secretary	0.25	0.00	0.25	0.50	1.00
Biomed	0.25	0.00	0.00	0.00	0.25
Total	6.70	1.20	2.25	2.70	12.85

As shown in Table IV above, RCGNW expects to add 6.15 FTEs to the facility by 2009. The applicant notes that some of the increased staffing will result in increasing the hours of existing employees, rather than increasing the number of employees. A review of Table IV supports this argument, with the exception of Patient Care Technicians, who will more than double in number, from 3.0 to 7.2 FTEs. No management positions and only .6 FTE's of nursing staff will be added. RCGNW notes that it currently has "...a comprehensive, documented staff training program that will facilitate filling any staffing needs as they arise. For these reasons, RCGNW-I does not anticipate any difficulty recruiting staff." [source: application, p29]

The department concludes that the applicant has proposed a staffing plan that can reasonably be expected to be accomplished and that adequate staffing for dialysis center is either readily available or can be recruited. This sub-criterion is met.

(2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

In response to this sub-criterion, RCGNW noted that "As this project proposes the expansion of an existing unit, the Chehalis Dialysis Facility already has the appropriate ancillary and support services in place." [source: application, p29] The applicant did not identify vendors for such services as hazardous waste disposal or laundry, but costs for these contracted services were identified in the applicant's pro forma statements and appear to be consistent with similar applications reviewed by the department.

The department concludes that each applicant currently has appropriate relationships with ancillary and support services and approval is not expected to affect those relationships negatively. This sub-criterion is met.

(3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

As stated in the project description portion of this evaluation, Fresenius, through its subsidiaries RCGNW and QualiCenters, owns and/or operates the following twelve kidney dialysis treatment facilities in Washington State:

Facility Name	City/County Location	# of stations
PNRS- Salmon Creek	Vancouver, Clark County	16
PNRS-Ft. Vancouver	Vancouver, Clark County	24
INRCG-Northpointe	Spokane, Spokane County	24
INRCG-Spokane	Spokane, Spokane County	27
INRCG-Spokane Valley	Spokane Valley, Spokane County	20
INRCG-Omak	Omak, Okanogan County	5
RCGNW-Aberdeen	Aberdeen, Grays Harbor County	16
RCGNW-Chehalis	Chehalis, Lewis County	7
RCGNW-Lacey	Lacey, Thurston County	25
RCGNW-Moses Lake	Moses Lake, Grant County	17
RCGNW-Shelton	Shelton, Mason County	10
QualiCenters Walla Walla	Walla Walla, Walla Walla County	12

In addition to the twelve facilities listed above, FMC operated three additional facilities in the Spokane area until April, 2006. Those facilities were sold to DCI as a requirement of the Federal Trade Commission's approval for FMC's purchase of RCG. Those facilities identified in the table above with the prefix "INRCG" are owned by RCGNW and Sacred Heart Medical Center, with RCGNW having a majority share and operational responsibility. Those facilities identified with the prefix "PNRS" are owned by RCGNW, Legacy Health Systems, and Oregon Health Sciences University, with RCGNW having a majority share and operational facility. The facilities identified with the prefix "RCGNW" are wholly owned and operated by RCGNW. FMC will continue to provide dialysis services to the residents of its service areas through its twelve dialysis centers listed above.

The FMC-owned or operated facilities in Washington have collectively been surveyed 30⁶ times in the last six years. Nine of those surveys revealed no deficiencies. One of those surveys revealed potentially hazardous conditions that were promptly corrected by the applicant. The remaining 20 revealed minor non-compliance issues and the facilities submitted plans of corrections for the non-compliance issues within the allowable response time. [source: compliance survey data provided by Office of Health Care Survey (OHCS)]

The department's survey of other states generally revealed minor non-compliance issues typical of a dialysis facility, related to the care, medical records, and management at the FMC facilities. [source: Licensing and/or survey data provided by out of state health care survey programs] In summary, in those states that monitored dialysis facilities, FMC submitted plans of correction and implemented the required corrections. [source: Licensing and/or survey data provided by out of state health care survey programs]

In the most recent three years, there were significant non-compliance issues identified in several states in the Eastern and Southeastern US for several of the former RCG facilities. Among the deficiencies identified in these facilities were issues around reuse of hemodialyzers and poor enforcement of facility procedures. [source: compliance survey data provided by out of state agencies]. RCG submitted acceptable plans of correction to remedy those issues and the department has not been notified of any facilities that have been terminated or voluntarily withdrawn from the Medicare program for non-compliance.

OHCS staff has informed the CN program that OHCS concludes that these compliance problems in other regions have not been observed in RCGNW facilities in Washington and that RCGNW has been pro-active in establishing communications with survey staff. On the basis of recent surveys of RCG facilities in Washington and discussion with OHCS staff, the program concludes that RCGNW does not appear to be experiencing the same issues that have created non-compliance citations in other parts of the country, and it is reasonable to expect that RCGNW-Chehalis would continue to be operated in compliance with applicable standards and regulations.

Although not referred to in the responses to the department's survey, in January 2000, Fresenius Medical Care Holdings, Inc. agreed with the Federal Government to settle certain pre-merger business related issues concerning certain subsidiaries of National Medical Care, Inc. (NMC).

⁶ IN-RCG Omak, 2001 and 2004; PNRS Ft. Vancouver, 2006 (condition-level deficiency regarding water quality testing – acceptable plan of corrections submitted. Follow-up surveys indicate facility in substantial compliance) 2003, 2000 no def; QualiCenters Walla Walla, 2006, 2003, 2000 no def; RCGNW-Aberdeen, 2006 no def; 2004 no def; 2003, 2000; RCGNW-Lacey 2001, 2000, 2004; Shelton 2006 no def; PNRS-Salmon Creek 2006, 2003, 2000 no def; INRCG Spokane Kidney Center 2005, 2003, 2002; INRCG Spokane Valley 2005, 2002, 2001; INRCG-Northpointe 2005, 2002 no def, 1999 no def; RCGNW-Chehalis 2002 no def, 2005

These business practices had been under investigation by the Office of Inspector General since 1995 when NMC was owned by W.R. Grace and Company, focusing on its business practices. Pursuant to the Settlement Agreement, a monetary settlement was reached and three NMC subsidiaries pled guilty. These three subsidiaries, Lifechem, Inc., NMC Homecare, Inc., and NMC Medical Products were excluded from participation in Federal healthcare programs. However, other FMC subsidiaries are qualified, do participate and are qualified to provide services to the Federal health care programs. The department concludes that these activities, conducted prior to FMC's acquisition of NMC, are related to the business practices of NMC's former management, not FMC.

The Chehalis Dialysis Facility has identified Christopher Burtner, MD, as its medical director under a draft contract provided in the application. A review of Dr. Burtner's compliance history with the Department of Health's Medical Quality Assurance Commission reveals no recorded sanctions. [source: compliance history provided by Medical Quality Assurance Commission]

Given the compliance history of FMC's other Washington facilities and its proposed medical director; there is reasonable assurance that FMC would operate this facility in conformance with applicable state and federal licensing and certification requirements.

The department concludes that the applicant has provided, through application materials or practice patterns, reasonable assurance that the expanded facility would be in conformance with applicable state and federal laws and regulations. The department notes, however, that the applicant (both as Fresenius and its subsidiary, RCG) is currently under investigation by the US Attorney's Offices for the Eastern District of Missouri and the Eastern District of New York. Little information is publicly available about these investigations. Depending on the outcome of these investigations, future applications by Fresenius may be impacted.

The department concludes that this sub-criterion at this time is met by FCM. The department will continue to monitor the progress the governmental regulations and if the conclusions of the investigations affect the applicant's ability to participate in the Medicare program, the department will re-evaluate its conclusions concerning this criterion in future analyses.

(4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

The applicant noted that "A central goal of the Chehalis Dialysis Facility is to provide coordinated, comprehensive and patient-centered dialysis services to our patients. To ensure this goal is achieved, the Chehalis Dialysis Facility will maintain all current relationships with our existing referral system and other health care providers in our service area" [source: application, p30] The applicant also provided a list of area nursing homes and senior services with which it has informal relationships, noting that it does not maintain contracts with those entities. RCGNW did provide a copy of a transfer agreement between the facility and Providence St. Peter Hospital for hospitalization, and an agreement between the applicant and Cover Park Technical College to cooperate in the training of the college's Health Occupations students in the dialysis clinic environment. [source: application, exhibits 15 and 16]

The department concludes that the applicant has demonstrated an ability to provide services in a manner appropriate to the health care delivery system, and that the implementation of this project should not result in an unwarranted fragmentation of service. As a consequence, this sub-criterion is met.

(5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

This sub-criterion is addressed in sub-section (3) above.

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed, the department determines that the applicant has met the cost containment criteria in WAC 246-310-240.

(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

In its application, RCGNW notes that it considered and rejected three alternatives to the proposed project: do nothing, establish a satellite facility, and expand with fewer than six new stations.

The applicant discarded the first option because of the growing need and high occupancy at the facility.

The second option was discarded because there are not enough ESRD patients outside the Centralia/Chehalis area to support an additional facility. RCGNW noted that the current facility's location and available space for expansion make it a better option than establishing another small facility.

The third option was also discarded, because the applicant's need projections indicated need for seven additional stations. RCGNW also noted that "operating with 13 stations will allow the facility to gain staffing efficiencies that it cannot obtain with its current station capacity." [source: application, p32] The applicant further noted that "management and clinical staff are already in place and can accommodate the additional volumes with no (management) to small (clinical) increases.

The department concludes that the applicant has demonstrated that the proposed project is the best available alternative. The department expects the facility to obtain the same staffing efficiencies with a 12 stations as it would with 13, therefore this criterion is met.